



national
electrical and
communications
association

WESTERN AUSTRALIA CHAPTER

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The Hon. Paul Papalia CSC MLA
Minister for Tourism; Racing and Gaming; Small Business; Defence Issues; Citizenship and
Multicultural Interests
10th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister

I am writing to you in your capacity as Small Business Minister to voice the concerns of the National Electrical and Communications Association (NECA WA) and its members in regard to Synergy's entrance into the retail market for the installation of solar systems and battery packages.

Executive Summary

Synergy recently entered the market for the sale and installation market of solar and battery storage systems selling directly to residential customers in Western Australia (WA).

These systems typically retail between \$3,000 and \$10,000. This market has traditionally been serviced by small electrical contracting businesses.

Synergy's entry into this already highly competitive market, is forcing small and medium contracting companies to cease operation and leave the market. The consequence of this is obviously decreased competition for consumers and increased unemployment within the economy.

Synergy should cease competing with small businesses in the Solar and Battery Storage installation market, for the following reasons.

WA Government competing with Small Business

There is a basic economic principle that states governments should not compete directly with private enterprise. It is a practice that has, on the whole, been supported by both sides of politics in Australia for many years. Allowing Synergy to compete directly with small businesses for the installation of solar power and battery storage systems is a concerning deviation from this well established practice.

The Western Australian Government provides enormous, tax payer-funded subsidies to Synergy. In FY2016, according to Synergy's Annual Report, this subsidy was in the order of \$280 million. This is in addition to the \$3 billion dollars in revenue which Synergy earned in the same financial year from its core business of selling energy.

Synergy is able to use its enormous revenue stream, the substantial government subsidy and the unique competitive advantages it enjoys as a result of its position as a monopoly holder, to run expensive television, print, on-line and social media advertising campaigns to compete against small business.

This is blatantly unfair competition and as an inevitable consequence has already resulted in the closure of many small businesses in this market and the laying off of large numbers of staff.



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Conflict of Interest

Synergy is fully owned by the WA Government. It has a legislated monopoly to buy and sell all the energy generated by solar systems on residential premises within WA.

Synergy sets both the price for the purchase and sale of this energy. Government regulations force all potential owners of solar systems on residential premises to seek approval from Synergy prior to connecting a residential solar system to the South West Interconnecting System (SWIS).

This process provides Synergy with the connection records for all consumers connected to the SWIS. As a result, Synergy has access to the customer details of every single one of their competitors' customers. This is an unprecedented situation and creates a clear conflict of interest.

Secondly, the process for connection also requires small business to direct their customers to Synergy's website in order to submit their request for a connection.

This is the same website that exposes customers from every other installer to heavy advertising for solar and battery products provided by Synergy, thus providing Synergy with the opportunity to make a last minute sales pitch to every one of its competitors' clients!

NECA WA cannot think of a similar situation in any other market where such a process is mandated.

This creates in effect, a situation where a contractor is forced to send a potential customer to their largest competitor in order to gain the competitors approval of their client's purchase and hope the customer doesn't get poached during the process.

How can any small business be confident in referring their clients to Synergy to perform the purely administrative task of requesting a connection, if that client will be subjected to the full force of Synergy's highly sophisticated, on-line marketing at the commencement of that connection process?

Abuse of Power

Synergy is the legislated monopoly retailer of electricity to the majority of consumers in the South West Interconnected System.

Synergy is also Western Australia's largest electricity generator which as I mentioned earlier, in FY 2016 received more than \$280 million in financial subsidies from the State Government.

It is the view of NECA WA that State government owned enterprises should not interfere with market forces that effect small business. Synergy's position provides it with market power which allows it to enter into blatantly unfair competition with privately owned businesses.

By virtue of its monopoly status, financial strength and government subsidies, Synergy can:

1. advertise heavily to its existing customer base (which is the entire retail market of electricity consumers)
2. leverage considerable purchasing power over equipment suppliers
3. leverage considerable purchasing power over installers (in the end, these systems must be installed by a licenced electrical contractor)
4. apply its vast marketing budget
5. undertake pricing that borders on predatory

Impact on Small Business

Synergy's foray into the solar and battery storage market is undoubtedly driving small business out of the market.

Using its enormous financial strength, Synergy is able to offer customers the SolarReturn Purchase Plan which allows customers to pay the cost of a new solar or battery installation over a long period of time via their Synergy electricity bill. Small business cannot possibly compete with this service, as their financial situation does not allow them to incur such delays to cashflow.

Small business should not be subjected to competition from a Government corporation which is heavily subsidised by the taxpayer. Small business owners in this market are, in effect, being required to financially support via their taxes (and to the detriment of their own business), their direct competition.

Synergy does not hold all of the licences which are required to install these systems eg. an Electrical Contractors Licence. Instead, it contracts out this work to subcontractors. By doing so, Synergy becomes another organisation in the supply chain and takes margin that would normally flow to the small businesses who would otherwise be employed to undertake this work.

Impact on Synergy if it withdrew from retailing the installation of solar and battery systems

Synergy will continue, through the relevant legislation, to hold a lucrative monopoly on the purchase of energy from solar systems and would therefore still be able to sell energy to its customers. This remains Synergy's core business.

The loss of revenue would be limited to the amount of the margin Synergy applies to the contractors' price to install these systems on their behalf.

It is highly questionable if Synergy could ever make a profit from its venture into the retail installation market given that; it is funding an expensive marketing and advertising campaign in both television and print media; developing and implementing sophisticated on-line strategies; needs to employ a dedicated sales team and provide office facilities for these staff in a market that is driven by high volume, small margin business models.

NECA WA believes that given the nature of the contracting market, Synergy will soon realise that the profits that can be earned in the solar and battery storage sectors are such that it will not be able to commercially justify its venture into the installation market, given the costs of its internal infrastructure.

NECA WA also believes that by the time Synergy comes to this realisation, unfortunately many existing contractors will have been forced to leave the market.

As well as driving small contractors out of the market, causing severe financial hardship and increasing unemployment, Synergy's entry into the market will substantially erode the future capacity of the supply chain.

Conclusion

The WA Inc experience of the 1980s is a good example of where a government's ventures into private sector business activities created a huge burden on the taxpayers of Western Australia.

This should not be repeated by Synergy's entry into the solar and battery storage installation market. This action is hurting small business at a time when the local market is depressed and small businesses are experiencing extreme financial and commercial stress due to a number of consecutive years of increased competition and declining demand.

NECA WA strongly urges the government to reconsider the previous government's decision to allow Synergy to compete in the solar and battery storage installation market.

I would welcome the opportunity to discuss this critical issue with you further.

Yours sincerely

Garry Itzstein
Executive Director NECA WA

About NECA

1. NECA is the peak industry body representing the interests of electrical and communications contractors Australia-wide.
2. NECA is run by electrical contractors, for electrical contractors.
3. NECA has 5,000 contracting companies as members (1,300 in WA) who in turn employ over 100,000 people Australia-wide.
4. NECA employs almost 350 people across its seven chapters (Queensland, New South Wales, ACT, Victoria, Tasmania, South Australia and Western Australia).
5. The chapters provide NECA members with a range of services including: Industrial Relations, Health & Safety, Legal, Technical, Training, business-support services, product discounts, as well as advocacy representation in Canberra with Government, Industry bodies and Training bodies.
6. NECA also employ approximately 2,000 apprentice electricians and provides training to a further 2,000.

For further information go to www.neca.asn.au.